

## Message Text

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ACTION STR-04

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CEA-01 CIAE-00 COME-00 DODE-00 EB-07 FRB-03 H-02

INR-07 INT-05 L-03 LAB-04 NSAE-00 NSC-05 PA-01 AID-05

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FM USDEL MTN GENEVA

TO SECSTATE WASHDC PRIORITY 2090

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ACTION STR

H PASS CODEL

E.O. 11652: N/A

TAGS: MTN, ETRD, GATT, CA

SUBJ: BILATERAL WITH CANADA ON FOREST PRODUCTS

1. SUMMARY. AT CANADIAN REQUEST, U.S. AND CANADIAN MTN DELEGATIONS MET TO DISCUSS A NEW CANADIAN SECTOR PROPOSAL FOR FOREST PRODUCTS. CANADIANS PASSED U.S. DEL PAPERS (SENT BY AIRGRAM) LAYING OUT COVERAGE FOR FOREST PRODUCTS SECTOR AND SHOWING HOW TARIFF HARMONIZATION GOAL WOULD BE ACHIEVED AFTER APPLICATION OF UFLR U.S. TARIFF-CUTTING AUTHORITY, WITH EC, JAPAN, AND PRESUMABLY CANADA, THEN MATCHING NEW U.S. RATES ON AN ITEM-BY-ITEM BASIS. CANADIANS CONTINUE TO REPEAT THEMSELVES AS THEY RATION OUT A SERIES OF PAPERS DEALING WITH EACH SECTOR PROPOSAL. END SUMMARY.

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2. U.S. AND CANADIAN DELS MET NOV 26 AT CANADIAN REQUEST TO RECEIVE CANDIAN PAPEERS OUTLINING A FOREST PRODUCTS SECTOR NEGOTIATION. LIKE THEIR NONFERROUS METALS SECTOR, THEY SEE NEGOTIATIONS COVERING TARIFFS, NONTARIFF MEASURES, ESCAPE CLAUSE ACTIONS, ANTIDUMPING PROCEDURES, CONSULTATION/ DISPUTE SETTLEMENT, ETC.; WHILE SUBSIDIES/COUNTERVAIL AND GOVT PROCUREMENT WERE "SET ASIDE," CANADA WAS NOT DROPPING THEM FROM SECTORAL NEGOTIATIONS PROPOSAL. THEY PROMISED, FOR EARLY NEXT YEAR, TO DEVELOP PROPOSALS ON (1) RESTRICTIVE BUSINESS PRACTICES, AND (2) GRADING STANDARDS FOR LUMBER THAT WOULD BE CONSISTENT WITH THE STANDARDS CODES BUT GO FURTHER TOWARD LIBERALIZATION.

3. THE CANADIANS PASSED OUT PAPERS GIVING THE PRODUCT COVERAGE AND RESULTING RATES FOR THEIR PROPOSAL. THE CANADIANS APPLY THE BASIC U.S. TARIFF-CUTTING AUTHORITY TO SELECTED TSUS ITEMS FOR LUMBER AND PAPER. WORKING FROM THE 1971 TSUS-BTN CONCORDANCE, THEY THEN SHOW THE EC AND JAPAN MATCHING THE RESULTING RATES ON AN ITEM-BY-ITEM BASIS. THEY PROMISED THE SAME "ITEM-BY-ITEM RATE EQUALIZATION" WITH THE CANADIAN TARIFF, BUT OBVIOUSLY HAVE NO TSUS-CANADIAN CUSTOMS TARIFF CONCORDANCE AVAILABLE ASSUMING SUCH A CONCORDANCE CAN BE CONSTRUCTED.

4. THE CANADIANS STATED THEY WERE MAKING THIS PROPOSAL TO THE U.S. (AND TO OTHERS LATER) BECAUSE U.S. AND CANADIAN INTERESTS ARE SIMILAR. THUS, THEY SEE THAT: (1) TARIFF RATE HARMOZIZATION, WHILE MAKING NO PARTICULAR ECONOMIC SENSE, IS AN ATTRACTIVE DEVICE TO SELLAN AGREE- MENT TO BOTH CANADIAN AND U.S. DOMESTIC INTERESTS. SINCE U.S. TARIFFS ON FOREST PRODUCTS ARE THE LOWEST OF THE BIG FOUR, THE EC, WHERE THE CANADIANS ARE PARTICULARLY AFTER THE PAPER MARKET, AND JAPAN WOULD BE REQUIRED TO REDUCE MORE THAN THE U.S.; (2) RESTRICTIVE BUSINESS PRACTICES PROPOSALS WOULD BE CONSONANT WITH THE U.S ANTITRUST REGULATIONS; (3) THE SUPPLY ACCESS QUESTION, WHICH THEY SEE SOLVED IN A SECTOR AGREEMENT, IS KNOWN TO BE OF INTEREST TO THE U.S.

5. IN EXPLAINING THE RATIONALE FOR A FOREST PRODUCTS LIMITED OFFICIAL USE

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SECTOR AGREEMENT, THE CANADIANS (CLARK) NOTED THAT IN THE NEXT 10 TO 15 YEAR RANGE THE U.S. AND CANADA ARE THE ONLY TWO WESTERN COUNTRIES WITH LARGE EXPORTABLE TIMBER AND PULP RESERVES. THE EC AND JAPAN ARE NOW NET IMPORTERS AND WILL BECOME MORE SO. THE SCANDINAVIAN COUNTRIES ARE OPERATING AT NEAR CEILING CAPACITY AND WILL NOT BE ABLE TO SUPPLY THE EXPANDING DEMAND FOR LUMBER AND PULP IN THE EC. THE QUESTION BECOMES IN

WHAT FORM WILL THE U.S. AND CANADA EXPORT?  
THE CANADIANS WANT TO EXPORT MANUFACTURED WOOD FIBER  
PRODUCTS RATHER THAN PULP. MORE PRECISELY, THE  
CANADIANS WANT TO SELL PAPER IN THE EC ON THE SAME  
TERMS AS THE SCANDINAVIANS. CLARK INDICATED THAT THERE  
WAS BEGINNING TO BE EVIDENCE THAT THE SCANDINAVIANS  
ARE REDUCING SUPPLIES OF PULP AND INCREASING  
PULP EXPORT PRICES RELATIVELY MORE THAN PAPER OR PAPER  
PRICES.

6. THE CANADIANS ARGUMENTS FOR THE EC GOING ALONG  
WITH A FOREST PRODUCTS SECTORS ARE CENTERED IN EC  
WORRY OVER SUPPLY SECURTY FOR WOOD PULP. THUS, THE  
EC WOULD BENEFIT BECAUSE THE AGREEMENT WOULD OPEN THE  
POSSIBILITY FOR JOINING VENTURES WHEREBY EC PARTNER  
COMPANIES COULD OBTAIN SECURE SUPPLIES, AND THE EC  
WOULD BENEFIT FROM THE FURTHER RIGHTS AND OBLIGATIONS  
OF THE SECTOR AGREEMENT.

7. U.S. DEL (MCNAMARA ET AL) NOTED THAT IT HAD NO  
INSTRUCTIONS FOR THIS MEETING AND REITERATED THE  
U.S. POSITION OF WILLINGNESS TO LISTEN. U.S. QUESTIONS  
PROBED THE SUPPLY ACCESS COMMITMENTS WHICH COULD BE  
MADE WHEN BOTH CANADA AND THE U.S. INDUSTRIES WERE IN  
PRIVATE HANDS, (ANSWER: THE EUROPEANS WOULD ENTER  
JOINT VENTURES AND CONTRACT FOR SUPPLIES), AND HOW  
THE CANADIANS WOULD HANDLE EXCEPTIONS UNDER THEIR  
PROPOSAL (ANSWER: WE DON'T FORESEE ANY).

8. COMMENT: THE CANADIANS CONTINUE TO REPEAT  
AND REFINED THEIR SECTOR NEGOTIATING PROPOSALS IN ORDER  
TO KEEP THEM ALIVE IN THE MTN CONTEXT. HOWEVER, THE  
CANADIANS DID NOT ELABORATE ON HOW THE U.S.  
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AND CANADA COULD GUARANTEE SECURITY OF SUPPLY IN A  
PRIVATE ENTERPRISE ECONOMY. IN REGARD TO THE  
QUESTION OF EXCEPTIONS, IT SHOULD BE NOTED THAT THE  
PROPOSALS DOES NOT INCLUDE ALL PRODUCTS IN BTN  
CHAPTERS 44 AND 48 OR ALL ARTICLES IN TSUS SCHEDULE 2.  
PERHAPS THE CANADIANS HAVE ALREADY BUILT-IN THEIR  
EXCEPTIONS? END COMMENT. WALKER

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## Message Attributes

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